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SUBJECT: INDUSTRY SAYS GERMAN GOVERNMENT ADOPTING TOUGH
TONE ON IRAN

REF: A. 09 BERLIN 00298

[B](#). 09 BERLIN 00289

[C](#). 09 BERLIN 00220

[D](#). 09 BERLIN 00120

[E](#). 08 BERLIN 00772

Classified By: Minister-Counselor for Economic Affairs Robert A. Pollard
for reasons 1.4 (b) and (d)

[1](#). (C) Summary: German officials are exerting stronger moral pressure on industry to discourage business with Iran beyond those measures specifically stipulated in sanctions regimes, according to industry contacts. German government officials have reportedly emphasized the undesirability of Liquefied Natural Gas (LNG) technology exports to Iran and the need for German banks to fortify their scrutiny of transactions related to Iran. Recent trade data indicates that the German government's moral suasion campaign may be showing some results although overall trade with Iran increased in 2008. The problem is that German industry, especially SMEs, is unlikely to stop trading with Iran so long as it is legal. Industry has shown keen interest in the U.S. policy review on Iran. Post welcomes information and support from Treasury's Office of Foreign Assets Control (OFAC) in addressing lingering misperceptions about USG policy. End Summary.

GERMAN TRADE: FOODSTUFFS UP, HIGH-TECH DOWN

[2](#). (U) Evidence now suggests the German government's campaign (REFs D, E) to reduce exports to Iran may be showing modest results, according to EuroStat data. Although Germany's exports to Iran rose 9.0% in 2008 over 2007 levels to a total of 3.9 billion euro, the broad category of food (up 179 million euro) accounted for 56% of this increase. Germany's food exports to Iran jumped from 43 million euro in 2007 to 222 million euro in 2008, the vast majority of which was grain. (In fact, German exports of grain exploded from less than a million euro in 2007 to 165 million euro last year.) Meanwhile, some industrial categories, notably, three high-technology categories, showed significant decreases: specialized machinery (down 44 million euro or 16%), metalworking machinery (down 18 million or 40%) and telecommunications equipment (down 13 million euro or 19%). (Note: EU export data does not separately categorize refinery or LNG equipment.)

GERMANY'S TOUGH LINE

[3](#). (C) Major industry organizations have complained to Post

about pressure from the German government. On March 4, Felix Neugart of the German Chamber of Industry and Commerce (DIHK) told EconOff that some German officials have been telling industry privately that Israel is very likely to attack Iran if insufficient pressure is brought to bear on Iran to change its course. Steffen Behm, Director of Africa and Middle East for the German Federation of Industries (BDI), likewise described the German government's efforts to discourage LNG deals with Iran as "very strong."

INDUSTRY STILL RESISTANT TO MORAL SUASION

¶4. (C) Elements of German industry remain skeptical of the German government's moral suasion campaign. Industry contacts said some exporters give credence to German press stories that claim the USG is discouraging Europeans from trading with Iran so that U.S. firms can win business there. According to Behm, BDI advises German companies to strictly adhere to any sanctions regime, but cannot do much more when the German government itself only informally discourages firms from conducting legal business. He argued that German exporters deserve clear guidelines and legal certainty, particularly on LNG technology. Similarly, Behm said that the German Federal Financial Supervisory Authority (BaFIN) is pressing German banks to undertake extremely onerous due diligence on customers to little effect. BDI opposes unilateral measures that, it argues, merely shift market share from German firms to companies from China and Russia.

¶5. (C) German companies' responsiveness to moral suasion is often tied to their size. Neugart of the DIHK contended that despite German officials' strong language, security arguments hold no sway with small and medium enterprises. In a March 6 meeting, representatives of the Bavarian Business Association (VBW) told EconOff that larger Bavarian firms are less likely to trade with Iran because of risks to their reputations, but smaller, more specialized companies are apt to export whatever is permitted under the law. VBW reps said many firms complained that restrictions on trade with Iran are affecting their bottom line, particularly in the energy sector. In these cases, VBW advised such firms to explore the growing business opportunities in Iraq as an alternative market. VBW urged the U.S. government to consider further outreach to more fully explain its sanctions policies.

STRONG INTEREST IN U.S. POLICY REVIEW

¶6. (C) Industry contacts are keenly interested in the U.S. policy review and hope the process will be completed quickly so that German stakeholders (both government and industry) have a clearer sense of where U.S. policy is going. Privately, industry associations recognize that the conflict over Iran's nuclear ambitions may reach a critical point within months. Most industry observers argued that regardless of who wins Iran's June election, sanctions will not persuade a regime and populace accustomed to economic hardship to change course, and they remained skeptical that Iran would abandon what its leadership regards as "a national development project." Nonetheless, a German Federation of Wholesale and Foreign Trade contact severely criticized former Chancellor Gerhard Schroeder's recent meeting with President Mahmoud Ahmadinejad in Tehran because he said it made Ahmadinejad appear to be a credible leader (REF C).

COMMENT

¶7. (C) German industry has consistently downplayed the Iranian threat in the past to forestall government pressure, but now seems resigned to a gradual closing of the Iran market as the German government closes ranks. Unlike in past encounters, industry contacts did not point to policy differences between the MFA and EconMin regarding trade with

Iran. Industry representatives also displayed greater openness to American leadership, but remained skeptical that a diplomatic solution was possible.

18. (C) Industry's reports of German government pressure on LNG technology exporters tracks with what German government interlocutors, including Economics Minister Karl-Theodor zu Guttenberg (REF A), have recently emphasized to us: The German government recognizes LNG technology as a key lever in pressuring Iran and is therefore discouraging German companies from exporting such technologies to Iran. Post also sees the decreases in Germany's high tech exports (machinery, metalworking and telecom), coupled with the dramatic 94 percent drop in government export guarantees (REF D), as small, but encouraging signs in the right direction. That said, we should continue to press the German government on trade with Iran; clearly, the unanticipated 2008 increase is a source of embarrassment to many officials. The Mission will continue its outreach to Germany's exporters in the business communities of Munich, Hamburg, Frankfurt and Duesseldorf, and would welcome a visit by U.S. sanctions and export controls experts, building on OFAC's successful meetings on Iran sanctions with German industry in Berlin in 2008. This also could be an opportunity to address German industry questions about the results of the policy review.

Koenig